

Reducing Poverty and Empowering Communities

BY PARITOSH SRIVASTAVA

Mohammed Yunus, founder of Grameen Bank, one day in 1974 met a woman from a small village in Bangladesh who made bamboo chairs for sale. Despite her endeavour, the woman was left with barely any profit after repaying the middlemen the money for the raw bamboos. He also discovered that some 42 people in the village suffered a similar fate and were in debt for a mere total of \$27. Mr. Yunus paid the loan so that they could break free from lenders. He also offered himself as a guarantor for the poor at a local bank.¹ From that day onwards, he embarked on a journey to eradicate poverty and empower people deprived of financial services, especially women, to be self-reliant.

In spite of strong advice from banks and Governments, Mr. Yunus began to issue microcredits and in 1983 formed the Grameen Bank, which gave small loans to entrepreneurs too poor to qualify for traditional bank loans. Since then, the concept of microcredit has come a long way. Many developmental agencies have started to comprehend its essential role in poverty reduction, and financial institutions are realizing immense opportunities in the microcredit domain.

A major reason why people cannot get out of poverty is because they do not have enough credit to invest in small enterprises. The poor do not have access to credit simply because financial institutions consider them a risk, as they often lack an underwriter or security deposit to guarantee repayment of the loan.² Nonetheless, these opinions are slowly changing. Microcredit banks, which cater towards the underprivileged, see the poor as credit-worthy.

To raise awareness and draw worldwide support, especially from financial institutions, the United Nations has designated 2005 as the International Year of Microcredit (IYM). Its main objectives are to draw awareness on microcredit in order to eradicate poverty, foster partnerships among financial institutions to provide adequate services for the needy, and assess the role of micro-finance in meeting the Millennium Development Goals (MDGs). Advisors and spokespersons have been appointed to raise understanding and advocate the concept of micro-finance, including the IYM goals and objectives. In addition, the UN General Assembly encourages Member States to create national committees or focal points to commemorate and implement national activities for the Year. So far, there are more than 50 committees.

During the year, many conferences and gatherings are also taking place worldwide to cultivate understanding,

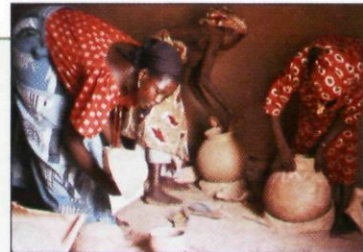
mobilize people to support microcredits and draw support from financial establishments that have not tapped into the enormous possibilities of microfinancing. In order to involve more financial institutions in providing services to the underprivileged, for example, the United Nations Capital Development Fund—in collaboration with the Financial Women's Association, Women Advancing Micro-finance, Women's Association of Venture and Equity, and Women's Bond Club of New York—organized a panel to celebrate the IYM and raise awareness of the

International Year of Microcredit 2005

Some of the highlights of the International Year of Microcredit are the Blue Book Project, the Data Project and the Global Microentrepreneurship Awards (GMA) Programme. The Blue Book Project is a compilation of data outlining the obstacles that countries face so that effective microfinance policies could be created to meet the fiscal needs of the country. It is also "a reference point for Governments to collectively discuss strategies, share and improve best practices". Similarly, the Data Project is a compilation of hard data to address current data gaps, such as who provides and who receives microfinance, and to anticipate future needs. This will be useful for policymakers, donors and banks in identifying where microfinance needs are greatest and how to improve access to financial services for all. The GMA Programme recognizes ways through which global entrepreneurs have contributed to the welfare of families and communities. It also raises awareness and understanding on how microfinance can empower people and communities. It bolsters investment and increases the visibility of microfinance.

In addition, IYM is encouraging the work of micro-entrepreneurs through the sale of products made by local artisans, craftsmen, potters and jewellery makers. Most importantly, it sheds light on why so many people lack access to financial services.

(For more information, see <http://www.yearofmicrocredit.org>).



UN photo

financial community concerning the vast opportunities of microcredit.

The underlying objective of IYM is to ultimately help achieve the MDGs. Microcredit and micro-finance pose vast potential to eradicate poverty by raising the poor from abject poverty to self-sufficiency. Microcredit stimulates the agricultural sector by expanding trade boundaries and enabling it to grow progressively out of subsistence farming to large-scale market production. Access to credit also allows people to select from diverse options, such as starting a business, enrolling children in school and getting access to the health-care system, including various services that constitute a healthy lifestyle.

One proven benefit of microcredit is that it helps reduce the number of people living below the poverty line. As people engage in business, they have the income that allows them further investment to expand and stabilize their businesses or even take more productive endeavours, which ultimately lifts them from poverty. Moreover, unemployment declines and working capacity increases as people get jobs, thus contributing to the overall economy of the country. Some 21 per cent of the Grameen Bank's microcredit programme members raise themselves from poverty within four years of joining the bank.³ This widely-imitated financial institution in Bangladesh aims to provide credit to people in extreme poverty. Some 94 per cent of those who meet its criteria and take up loans are women; borrowers keep up repayments at a rate of some 98 per cent. The Grameen Bank lends \$30 million a month to 1.8 million needy borrowers.

Microcredit has also proven to be a valuable agent to empower women. Some 25 million people worldwide, 90 per cent women, are using microcredit to undertake income-generating or self-employment activities. Microcredit has not only made women productive but has also empowered them.⁴ As they start their own enterprise, they take more pronounced role in the economic, social and political spheres of societies. Furthermore, women acquire added decision-making power in family matters, such as family planning, children's education and safety net.

Yet, the field of micro-finance has its own critics. Many opponents argue that there are two types of microlenders: those whose primary objective is to make profits and those who empower and assist the poor.⁵ Unfortunately, according to these critics, there are more in the former group. In order to reduce poverty and empower people, micro-financiers, besides providing access to financial credit, need to expand services that lead to a healthy lifestyle. According to Shahidur R. Khandker, senior economist at the World Bank and the main author of a study titled *Fighting Poverty with Microcredit: Experience in Bangladesh*, "microfinance has tremendous potential as an instrument for poverty reduction, but complementary efforts, such as literacy promotion and training, are necessary to help those who lack the skills to make credit

work for them". Many microcredit studies show that other poverty alleviation programmes, such as employment schemes, education and disease prevention awareness, "are needed to ensure that the poor make productive use of microcredits and ascend completely out of the poverty cycle".

Many organizations have started addressing other indicators of human development. They are commonly referred to as "self-help groups" (SHGs), comprised of up to 20 members, mostly women, usually from the lower socio-economic strata. Members save a small amount of money for the group fund and, in return, gain access to the accumulated funds for various purposes, such as starting a business, paying for children's school fees, or getting medical treatment. SHGs not only work as a microcredit group but also as a social support and safety net.

One example is the Self-Employed Women's Association, a trade union based in India, which provides microcredit loans and assists women regarding work, food and social security through health services, child care and shelter. Similarly, Streevani ("voice of women"), also in India, works for women's empowerment through restoring their dignity as human beings and equal partners within Indian society.

Such empowerment covers gender governance and leadership, capacity-building, legal education, income-generating activities and community development. Nzoia Muungano is another SHG established in Kenya to empower members economically and socially. It contributes a certain amount of money based on the economic status of members, which is collectively used to assist them in starting a business, buying a house or sending their children to school. Despite all these success stories, however, organizations that truly empower and reduce poverty are limited.

The International Year of Microcredit hopes to raise awareness that everyone is credit-worthy, and for microlenders to move beyond micro-loans to a broader picture that includes other financial tools to help people lead a fruitful life. About 80 per cent of the world population does not have access to banking services, yet they have the potential to be responsible credit-takers. Microcredit hopes to extend banking services to this population. □

Notes

- 1 Chang, Helen. *Visionary Economist Muhammad Yunus Shares Microlending Success Stories*, Standard Graduate School of Business.
- 2 Kilgour, David. *The Challenges of Microcredit*.
- 3 Khandker, Shahidur R.; (1998); "Fighting Poverty with Microcredit: Experience In Bangladesh", published for the World Bank by Oxford University Press.
- 4 Ahmed F. Kaniz, *Microcredit as a Tool for Women Empowerment: The Case of Bangladesh*.
- 5 Sing, Kawaljit. *Micro Credit: Band-aid or Wound? The Indian Economic Overview*.

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